

Actions for Improvement relating to access to capital and the SBA Subcommittee on Finance and Tax

The U.S. Small Business Administration (SBA) was created in 1953 as an independent agency of the federal government to aid, counsel, assist and protect the interests of small business concerns, to preserve free competitive enterprise and to maintain and strengthen the overall economy of our nation. We recognize that small business is critical to our economic recovery and strength, to building America's future, and to helping the United States compete in today's global marketplace. Although SBA has grown and evolved in the years since it was established in 1953, the bottom line mission remains the same. The SBA helps Americans start, build and grow businesses.

But are they sticking to their mission? What can be done to improve access to capital for small business?

US Export Assistance Centers do a good job. SBA surety program helps small businesses get started. However, the SBDC's do not seem to get a lot done, and the 8a program has the appearances of abuse in the program, not to mention it is reverse discrimination. If the US ever wants to become a tolerant, inclusive, nation of individuals, preference programs need to be tossed aside.

The SBA loan guarantee programs sound to be cumbersome, and not extensively used in the NW as a percentage of all loans produced. The reasons are probably that they are not effectively marketed, and the fact that the paperwork is too cumbersome. There are currently 889 pages in the current manual. Something that started out simple, has gotten too complicated over time. More uniformity between the programs needs to be adopted, and make the rules simple. Consider that at the end of the day, if most banks think it is going to be a bad loan, then in high probability, it will be a bad loan. But, in certain cases, an SBA loan could be a valuable tool to use, and a lot of loan deals are completed over the course of a year.

My company has first hand experience with filling out forms for the 7a loan guarantee program, and halfway through the process, decided the hassle was not worth the effort involved, and found another way to finance the real estate. We also have very positive experience working with the US Export Assistance program, when we were doing projects in Asia. Other than that, the SBA has been fairly irrelevant to Modern over the last 38 years.

We have not found a problem with accessing the capital markets, and in fact got a good loan for industrial property in Sacramento, Ca during the middle of the meltdown. My thought is that the banks are just being more careful, and opportunistic with their underwriting, and pricing of loans. Prior to the so called crisis, underwriters were doing a poor job, as were the federal regulators, and created a bubble real estate economy, thereby creating a crash so to speak. In time, the market will settle down, and borrowing, and real estate values will settle down and return to normal.

The recipe for a healthy capital market is to give incentives to banks and other financial institutions, to make loans. To do that would be to lower the tax rates, not raise them.

Make sure the Federal Reserve Bank has the tools to do their job, and keep money flowing in the market. Make sure the dollar is not over devalued, so that foreign capital stays in the US, rather than in other currencies to help keep interest rates low. Finally, make sure there are not so many banking regulations, that the process dissuade banks from doing what they wanted to do in the first place, make loans from their deposits and turn a healthy profit for their investors.

The current feelings among business owners is that the environment for business, as impacted by the government, with all of it's regulations, and restrictions, has more to do the ability of a business to attract capital, provide jobs, and to grow, than setting up the latest idea, or program intended to help businesses. American businesses need a playing field where they can be competitive, successful, and wanted, in their own community.

I caution the government to do too much intervention as that causes the markets to over react with unintended consequences. Thomas Jefferson said it very well, "He who governs least, governs best". We must maintain, and promote a free market economy, as pointed out by George Gilder ""A successful economy depends on the proliferation of the rich, on creating a large class of risk-taking men who are willing to shun the easy channels of a comfortable life in order to create new enterprise, win huge profits, and invest them again." That is how to improve access to capital and improve an economy, promote the entrepreneur risk takers, who create wealth.